

Tilney, Ladd & Co.

Railroad Bonds

New York

FINANCIAL NEWS
AND COMMENT

Speculators Reminded That Foreign Liquidation May Increase in Volume.

BRITISH PLANS REVIEWED

Study of Latest "Schematic" Shows There Is Little Danger of Important Selling.

Speculators are being reminded by Wall Street sources that foreign liquidation may reappear as an important stock market factor. One of the members of the New York Stock Exchange has this to say on the subject:

"The fact seems to have been ignored or at least passed over that under the terms of the loan to Great Britain the collateral stocks may be sold and the British notes taken up—or that other securities may be substituted and the originals sold. Also that the \$100,000,000 (of American securities) referred to may be only a small part of the securities of this character owned or controlled by the British Government."

"The amazing fact that more than \$1,285,000,000 (of American railroad securities) has been absorbed eighteen months—easily, without disturbances, at times on a rising market—is a fact does not contradict existence of a great supply still owned abroad, and with the continuance of the war much of it is destined still to be sold."

It is true that the \$100,000,000 of American securities deposited as part collateral for the recent \$250,000,000 British loan constitutes a small part of the American securities still owned or controlled by the British Government or by British subjects. It is true, also, that this has been pointed out more than once in this column—that continued liquidation for foreign account should be expected. It may be misleading, however, to direct such pointed attention to the possibility of sale of collateral already deposited against the British loan.

Provisions of British "Scheme"

A large amount of American stocks and bonds was bought by the British Government, but it was known that numerous British holders of American securities were not willing to sell what they regarded as peculiarly speculative investments. For this reason arrangements were made for the British Treasury to borrow the securities which it could not purchase.

Not long ago a new mobilization scheme was put into effect. This scheme is in a sense supersedes the original mobilization plan. In addition each year one-half of 1 per cent of the face value of the securities the Treasury reserves the right to dispose of the securities. This was necessary in order to utilize the stocks and bonds as collateral but in the event of their being sold by the Treasury must either repurchase the securities in order to return them or must pay to the lender the deposit value of the securities plus 5 per cent.

When this provision was announced it was feared that the British Treasury planned to take advantage of any increase in price in the securities to sell the securities. It was recognized that if they could be sold at an advance of more than 5 per cent, there would be an actual profit for the Treasury on the transaction.

Treasury Explains.

To set these fears at rest a subsequent announcement was made that in case the Treasury found it necessary to sell the securities the lender should receive the full amount of the deposit period plus full share of the average price actually realized on the sales, even though the average price should exceed the deposit plus 5 per cent, and it was pointed out that there was no intention of selling the securities unless this could become necessary, or in other words unless the Treasury could not otherwise pay back the loans received in this country.

It would be foolish to assume that the British Treasury was not acting in good faith when it outlined its plan to British holders of American securities. It appears that under the provisions of the scheme the British Government actually could undertake a gigantic speculation, that is, that it could undertake to sell the borrowed securities at prices more than 5 per cent higher than their deposit value and then buy them back at less than the selling price. Were it possible for such a plan to be carried out successfully the Treasury would not lose the amount of the loan, but it would have to pay to the lender instead of the amount received on the original sale, plus interest on the amount borrowed actually realized on the sales, even though the average price should exceed the deposit plus 5 per cent, and it was pointed out that there was no intention of selling the securities unless this could become necessary, or in other words unless the Treasury could not otherwise pay back the loans received in this country.

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Distribution Possibilities.

The latest estimate of the National City Bank of the amount of liquidation of foreign interests in this country since the outbreak of the war is \$1,600,000,000. It should not be overlooked in this connection that the British Government's percentage of the stocks and bonds now held by the British Government is not so large as to indicate that total has been actually absorbed. Large blocks of securities were taken by American institutions, not with the intention of keeping them permanently but of selling them gradually as market conditions permitted.

The absorptive power of the market in this country has not yet been fully tested to tell all, and it may be reasonable to suppose that those who were anxious to distribute stocks have been doing so steadily. Certainly it is that tremendous amounts of shares have been thrown on the market, particularly in the last week. This may have been for purposes of distribution, or the market may have been merely a present excess of supply.

In spite of such selling and the natural realization of those who purchased earlier in the year, there has been no important reaction. Fundamental conditions are practically the same now as they were three weeks ago, and it is believed that the majority of bankers still favor the advancing movement. The market will continue to do well, the real question will come up again, but expert observers were willing on Saturday to place themselves on record as saying that the advance will be resumed after the reaction, barring, of course, unforeseen international developments.

The technical position may not be so weak as the bears apparently believe, because there have been numerous sharp declines which have shaken out weak accounts and have encouraged the shorts to extend their lines.

LAST WEEK'S BOND MARKET.

High-Low-Clos-Nat—
Sales est. est. Chg. High-Low.
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